

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its November 2003 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 2.9% in 2003, 4.3% in 2004, and 3.6% in 2005, 2006, and 2007;
- U.S. nonfarm employment declines 0.3% in 2003, then grows 1.1% in 2004, 2.2% in 2005, and 1.8% in both 2006 and 2007;
- U.S. civilian unemployment rate falls gradually from 6.0% in 2003 to 5.7% by 2007;
- inflation is 2.3% in 2003, 1.4% in 2004, and averages 2.0% from 2005 to 2007;
- the federal government deficit peaks at nearly one half trillion dollars in 2004;
- and net exports begin improving in 2005.

Last year the U.S. economic recovery achieved some much-needed credibility when two of its missing parts fell into place. Last August the so-called “jobless recovery” finally began adding jobs. In addition, real business investment advanced after shrinking for over two years. The return of investment is important because its collapse was one of the factors leading to the last recession.

The baseline forecast calls for the economy to grow moderately over the next few years. This forecast, while most probable, is not the only possibility. Other paths, while less likely, are also possible. In order to account for this, two alternative forecasts for the national and Idaho economies have been prepared. Both have an equal probability of occurring. In the first, the U.S. economy outperforms its baseline counterpart. In the second, the economy falls short of the baseline’s showing. The details of these alternative forecasts are discussed in detail below.

OPTIMISTIC SCENARIO

The *Optimistic Scenario* has been assigned a 20% probability of occurrence. This scenario explores how the economy would perform with a bit more oomph. This is not hard to imagine. During the course of 2003, the vigor of the housing market has persistently exceeded expectations. In this scenario, U.S. housing starts actually top 1.8 million units in 2003 and 2004, and are higher than in the baseline in every year of the forecast. The economy also gets a boost from exports and government purchases. It is assumed global growth picks up, increasing the demand for American made goods. The stronger foreign economies should put downward pressure on the dollar, which further benefits exports. This alternative scenario assumes state and local governments raise spending a little faster in 2004 and 2005 compared to the baseline.

In the *Optimistic Scenario*, real GDP growth accelerates to 4.9% in 2004 and 4.0% in 2005, averaging about 0.5 percentage point stronger than its baseline counterpart. The unemployment rate improves quicker than in the baseline. Specifically, it is down to 5.3% in 2005. This is much lower than 5.8% unemployment rate forecast for 2005 in the *Baseline Scenario*. Not surprisingly, nonfarm employment growth is more brisk than in the *Baseline Scenario*. One consequence of the stronger growth in the *Optimistic Scenario* is inflation risks emerge more quickly. As a result, the Federal Reserve tightening begins earlier and is more aggressive than in the baseline.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2004

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007
GDP (BILLIONS)												
Current \$	11,580	12,211	12,883	13,610	11,648	12,344	13,060	13,831	11,442	11,840	12,436	13,212
% Ch	6.0%	5.4%	5.5%	5.6%	6.6%	6.0%	5.8%	5.9%	4.8%	3.5%	5.0%	6.2%
1996 Chain-Weighted	10,138	10,498	10,871	11,259	10,196	10,601	10,980	11,358	10,022	10,229	10,624	11,131
% Ch	4.3%	3.6%	3.6%	3.6%	4.9%	4.0%	3.6%	3.4%	3.2%	2.1%	3.9%	4.8%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	37,167	38,981	41,165	43,602	37,296	39,332	41,697	44,309	36,886	37,946	39,767	42,236
% Ch	5.7%	4.9%	5.6%	5.9%	6.1%	5.5%	6.0%	6.3%	4.9%	2.9%	4.8%	6.2%
U.S. (Billions)	9,685	10,223	10,817	11,471	9,725	10,327	10,977	11,685	9,613	9,954	10,425	11,060
% Ch	5.2%	5.6%	5.8%	6.0%	5.6%	6.2%	6.3%	6.4%	4.4%	3.6%	4.7%	6.1%
PERSONAL INCOME - 1996 \$												
Idaho (Millions)	32,367	33,314	34,476	35,739	32,469	33,557	34,776	36,050	32,216	32,774	33,775	35,239
% Ch	4.2%	2.9%	3.5%	3.7%	4.5%	3.3%	3.6%	3.7%	3.7%	1.7%	3.1%	4.3%
U.S. (Billions)	8,434	8,737	9,060	9,402	8,467	8,810	9,155	9,507	8,396	8,597	8,854	9,228
% Ch	3.7%	3.6%	3.7%	3.8%	4.1%	4.1%	3.9%	3.8%	3.2%	2.4%	3.0%	4.2%
TOTAL NONFARM EMPLOYMENT												
Idaho	581,925	591,734	602,052	613,550	583,202	595,188	606,580	618,453	578,880	581,563	590,288	604,260
% Ch	1.5%	1.7%	1.7%	1.9%	1.7%	2.1%	1.9%	2.0%	0.9%	0.5%	1.5%	2.4%
U.S. (Thousands)	131,491	134,395	136,853	139,293	131,953	135,416	138,088	140,476	130,737	131,981	134,015	137,435
% Ch	1.1%	2.2%	1.8%	1.8%	1.5%	2.6%	2.0%	1.7%	0.6%	1.0%	1.5%	2.6%
GOODS PRODUCING SECTOR												
Idaho	100,711	100,115	99,765	99,597	101,470	101,882	101,586	101,165	98,650	93,939	94,445	97,175
% Ch	-1.5%	-0.6%	-0.3%	-0.2%	-0.8%	0.4%	-0.3%	-0.4%	-3.5%	-4.8%	0.5%	2.9%
U.S. (Thousands)	21,925	22,271	22,528	22,792	22,032	22,611	22,988	23,222	21,709	21,336	21,245	21,999
% Ch	-0.5%	1.6%	1.2%	1.2%	-0.1%	2.6%	1.7%	1.0%	-1.5%	-1.7%	-0.4%	3.6%
NONGOODS PRODUCING SECTOR												
Idaho	481,214	491,619	502,287	513,953	481,732	493,306	504,995	517,288	480,230	487,624	495,843	507,086
% Ch	2.1%	2.2%	2.2%	2.3%	2.2%	2.4%	2.4%	2.4%	1.9%	1.5%	1.7%	2.3%
U.S. (Thousands)	109,566	112,124	114,325	116,501	109,920	112,805	115,100	117,254	109,028	110,645	112,770	115,436
% Ch	1.5%	2.3%	2.0%	1.9%	1.8%	2.6%	2.0%	1.9%	1.0%	1.5%	1.9%	2.4%
SELECTED INTEREST RATES												
Federal Funds	1.1%	1.9%	2.4%	3.1%	1.3%	2.4%	3.3%	4.1%	0.7%	0.5%	0.5%	1.2%
Bank Prime	4.1%	4.9%	5.4%	6.1%	4.3%	5.4%	6.3%	7.1%	3.7%	3.5%	3.5%	4.2%
Existing Home Mortgage	6.7%	7.1%	7.1%	7.2%	6.7%	7.3%	7.4%	7.6%	6.6%	6.6%	6.6%	6.6%
INFLATION												
GDP Price Deflator	1.6%	1.8%	1.9%	2.0%	1.6%	1.9%	2.1%	2.4%	1.5%	1.4%	1.1%	1.4%
Personal Cons Deflator	1.4%	1.9%	2.0%	2.2%	1.6%	1.9%	2.1%	2.4%	1.1%	1.1%	1.7%	1.8%
Consumer Price Index	1.4%	1.9%	2.0%	2.2%	1.4%	2.0%	2.3%	2.6%	1.1%	1.1%	1.7%	1.9%

Forecast Begins the THIRD Quarter of 2003

In this *Scenario*, the outlook for Idaho's economy improves slightly. Total nonfarm employment grows marginally faster in each year compared to its baseline counterpart, so that by 2007 nonfarm employment is nearly 5,000 higher. This reflects a stronger showing for both the goods- and nongoods-producing sectors. As in the baseline case, goods-producing employment is expected to fall over the forecast horizon. However, it does not decline as steeply as anticipated in the *Baseline Scenario*. Nongoods-producing employment does grow faster here versus the *Baseline Scenario*. In addition, both Idaho nominal and real personal income advance faster in this scenario compared to the baseline. As a result, both are higher in 2007 than their baseline counterparts.

PESSIMISTIC SCENARIO

This *Pessimistic Scenario* has also been assigned a 20% probability of occurrence. In this scenario, the U.S. economy hits a few obstacles on the road to recovery. Part of the blame for this is the Eurozone and Japanese governments' failures to enact essential structural reforms. In addition, European economic growth is hurt by the European Central Bank's refusal to adopt a more accommodative policy. These factors contribute to anemic global economic growth. One of the consequences of this weaker growth is it props up the dollar versus foreign currencies. The weaker world growth and higher dollar hit exports with the impact of a one-two punch. As export demand stagnates, consumers become more cautious with spending. This causes real GDP to grow slower than in the Baseline Scenario, with investment spending being especially hard hit. Businesses are also more cautious about adding new workers. This slow pace of hiring eats away at consumer sentiment, which causes consumer growth to eventually slow.

With inflation stable and the recovery threatening to stall, the Federal Reserve lowers its federal funds rate to 0.75% in early 2004 and follows that with another 25 basis point reduction a few months later. By early 2005, the recoveries in Europe and Asia finally take hold. By late that year, a weakening dollar begins to amplify the effects of the Federal Reserve's expansionary policy. After flirting with a disaster, the economy is back on track. Net exports begin to rise, which starts a pick up in industrial activity, investment, and job growth.

The weaker U.S. economic outlook dampens Idaho's economic prospects. Notably, Idaho nonfarm employment is expected to grow slower than in the baseline from 2004 to 2006. Employment does grow faster in 2007, but this growth cannot overcome the impacts of the previous three years. By the end on the forecast period, Idaho nonfarm employment is over 9,000 lower than in the baseline. Interestingly, goods-producing employment suffers significant setbacks in 2004 and 2005, but posts a rally beginning in 2006. As with overall employment, however, the gain in goods-producing employment does not offset the losses of the previous years. Idaho nominal and real personal income follow the same general pattern as nonfarm employment. That is, weaker growth than their baseline counterparts through 2006 combined with modestly stronger growth in 2007.